



COMMISSIONERS COURT
COMMUNICATION

REFERENCE NUMBER 0

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DATE: 06/08/2010

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT FOR THE TARRANT COUNTY JUSTICE OF THE PEACE, PRECINCT 1**

COMMISSIONERS COURT ACTION REQUESTED:

It is requested that the Commissioners Court receive and file the Auditor's Report of the Tarrant County Justice of the Peace, Precinct 1.

BACKGROUND:

In accordance with Local Government Code, Subchapter A, Sections 115.001, Examination of Records, 115.002, Examination of Books and Reports, and 115.0035, Examination of Funds Collected by County Entity, the Auditor's Office performed a review of Tarrant County Justice of the Peace, Precinct 1 operations for the 27 months ended August 31, 2009. The review was expanded to include bank reconciliations through March 2010. The objective of the review was to determine whether controls over County funds were adequate.

FISCAL IMPACT:

There is no direct fiscal impact associated with this item.

SUBMITTED BY: Auditor

PREPARED BY: S. Renee Tidwell
APPROVED BY:



TARRANT COUNTY

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April 27, 2010

The Honorable District Judges
The Honorable Commissioners Court
The Honorable Ralph Swearingin Jr., Justice of the Peace, Precinct 1
Tarrant County, Texas

Re: Auditor's Report – Justice of the Peace, Precinct 1

SUMMARY

In accordance with Local Government Code, Subchapter A, Sections 115.001 *Examination of Records*, 115.002 *Examination of Books and Reports*, and 115.0035 *Examination of Funds Collected By County Entity*, we reviewed Tarrant County Justice of the Peace, Precinct 1 (JP1), operations for the 27 months ended August 31, 2009. We expanded our review of the bank reconciliations through March 2010. The objective of our review was to determine whether controls over County funds were adequate. Although we found no evidence of impropriety, we identified certain areas that should be improved to strengthen controls related to the safekeeping and recording of County funds.

Observation 1 The monthly reconciliations remitted to the Auditor's Office consistently showed differences between the bank balance and the book balance.

Observation 2 Transactions recorded in the Misdemeanor and Civil Mainframe Systems were not always accurate.

On March 2 and April 28, 2010, we discussed our observations and recommendations with the appropriate JP management.

BACKGROUND

The Justice of the Peace (JP) serves as a trial court judge for certain civil lawsuits and Class C misdemeanors, and as an administrative court judge for a variety of miscellaneous court procedures. JPs also act as notaries, hold inquests, and perform marriages. Except for three JP offices, the JPs use the JP Mainframe System to record court costs, fees, and fines collected for Tarrant County and the State of Texas.



The JP deposits the funds collected into the JP1 checking account held at the County depository. Twice a week, the JP remits funds belonging to Tarrant County and the State of Texas to the Auditor's Office for recording onto the general ledger and subsequent disbursement to the state. On a quarterly basis, the Auditor's Office remits state court costs and fines to the Texas State Comptroller's Office.

During fiscal year 2008, JP1 reported revenues totaling approximately \$634,500 to the Auditor's Office and authorized credit for Jail Time Served or Community Service totaling approximately \$525. For the eleven months ending August 2009, JP1 reported about \$478,700 in revenue and authorized credit for Jail Time Served totaling about \$4,171. JP1 had not recorded any credits for Community Service. These amounts do not include revenues collected and remitted to the State of Texas.

OBSERVATIONS AND RECOMENDATIONS

Observation 1 – The monthly reconciliations remitted to the Auditor's Office consistently showed differences between the bank balance and the book balance.

Background

The Auditor's Office performed a limited review of JP1's books and records as of January 1, 2007. The objective of the review was to provide accountability over the transfer of authority to the incoming JP. At that time, the JP's Civil and Misdemeanor trust balances exceeded \$37,000 and the bank balance totaled about \$43,000. This \$6,000 difference could not be associated with specific cases. Therefore, the excess amount was remitted to the Auditor's Office for deposit in February 2007. After remittance of these excess funds, the JP system and the bank balance reconciled. Furthermore, the JP staff was advised to research and dispose of the remaining monies held in trust and reconcile the trust balances to the bank account.

Observation

During the review of bank reconciliations submitted to the Auditor's Office, we observed instances where differences existed between the bank balance and the JP system balance. Therefore, we extended our review to include bank reconciliations prepared by the JP's office through March 2010. During the latest 18-month period, 15 reconciliations prepared and subsequently remitted to the Auditor's Office showed differences between the bank balance and the book balance ranging from \$-4,211.52 to \$23,140.78. The Auditor's Office re-performed the monthly reconciliations and found that JP staff had not considered reconciling items such as deposits in transit (including credit card payments), outstanding checks, and had not used the correct receipt, disbursement, and/or beginning book balance. After re-performing the reconciliations, the Auditor's Office staff returned the corrected reconciliations to the JP Court Manager.



Furthermore, our reconciliation through March 31, 2010 shows excess funds totaling \$3,786.46 in the JP's bank account compared to the amounts recorded on the JP system. These excess funds specifically relate to the Monies Held in Trust accounts. Although JP staff did not have the information to explain the difference between the JP system and the bank balance, these excess funds may be due to the following:

1. Cases were disposed and removed from the JP system, but the funds were not paid to the rightful owner;
2. Funds were collected and deposited for a case, but were never filed or entered into the JP system; and
3. Funds were disbursed and removed from the JP system and subsequently returned as undeliverable mail, but were not re-recorded into the system.

JP staff was not adequately trained with regard to certain financial requirements of the office, including daily and monthly reconciliations. If JP staff had performed procedures to reconcile deposits and disbursements to the Monies Held in Trust accounts on a daily basis, these differences may have been identified and resolved in a timely manner. We also found no evidence indicating that the JP reviews the monthly financial reports, including the bank reconciliation.

In our opinion, the lack of daily and monthly reconciliations and independent management review increases the risk that errors and fraud will not be identified in a timely manner.

Recommendations

It has come to our attention that state and county training does not provide adequate instruction related to certain financial processes within the JP offices. Therefore, the Auditor's Office will design appropriate training to the JP offices as needed. During a meeting held on April 28, 2010 with JP1, the Auditor's Office agreed to allocate audit staff to provide additional training to the JP's staff with regard to the daily and monthly reconciliation process.

Since one of the primary purposes of reconciliation is to identify errors and fraudulent transactions, the person performing the reconciliation should ideally be someone other than the individual who initiated the transactions. Due to staffing limitations, we recommend that the JP review the reconciliation and the related financial reports to verify the accuracy and appropriateness of the reconciliation and the relevant transactions.

In the event that JP1 staff cannot identify the appropriate cases to dispose the excess amount currently in the bank balance, the JP should remit the funds to the Auditor's Office for deposit.



Observation 2 – Transactions recorded in the Misdemeanor and Civil Mainframe Systems were not always accurate.

Background

The Misdemeanor and Civil Mainframe System case dockets contain essential case information including, relevant parties, case type, bonds, fees charged and paid, balances due, case comments, paper service, receipts, disbursements, and case disposition. Therefore, these electronic case docket records are essential to the JP and other County offices.

Observation

During our review of selected transactions, we found the following notable errors:

1. One case was referred to collections for nonpayment although full payment had been received and recorded onto the JP system.
2. Two defendants were overcharged for filing fees related civil cases.
3. Filing fees related to two civil cases were not recorded accurately onto the JP system.
4. A service fee was not correctly recorded to the constable who served the papers.

Furthermore, information related to disbursement checks were not always recorded accurately in the JP system. These conditions occurred because JP staff had not been adequately trained. Furthermore, staff did not always review case details prior to processing transactions.

Recommendations

JP staff corrected these errors upon communication by the Auditor's Office. We also recommend that the JP:

1. Provide additional training to staff to reduce the likelihood of errors;
2. Establish procedures requiring staff to thoroughly research and review case dockets prior to making adjustments, processing transactions, or referring cases for collections; and
3. Monitor the JP system financial reports to identify and correct errors in a timely manner.



OBJECTIVE AND METHODOLOGY

The objective of our review was to determine whether controls were adequate to provide reasonable assurance that County funds were safeguarded from misuse. During our review, we gained an understanding of the internal controls over the financial systems through inquiry of appropriate personnel, observation of the operations, inspection of relevant documentation, and other procedures that we considered necessary. We also performed tests of receipts to satisfy our objective. We believe that our review provides a reasonable basis for our conclusion.

Internal control is broadly defined as a process designed to provide reasonable, not absolute, assurance regarding the achievement of objectives such as the safeguarding of assets, reliability of financial reporting, and compliance with applicable laws and regulations. The JP, in the role of management, is responsible for the implementation and application of effective internal controls. It is our responsibility to review and assess the effectiveness of those controls. Because of the inherent limitation of any internal control structure, errors and irregularities may occur, but may not be detected.

CLOSING REMARKS

We wish to thank the JP and his staff for their cooperation in the completion of this project. We also appreciate his prompt attention to our recommendations.

Very truly,



S. Renee Tidwell, CPA
County Auditor

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